



Office space: A tale of two cities

By JASON HUGHES

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As if we don't hear enough these days about shortages in gasoline, energy, water, clean air, city revenues and the like, we're now being told by office landlords and their broker shills that vacant office space in San Diego is shrinking faster than a speeding bullet -- to use a well-worn phrase from the latest Superman epic. Some "experts" are suggesting that San Diego is in mortal danger of running out of developable land which, together with the so-called dearth of existing office space, will surely ignite explosive increases in rents.

To pursue the Superman analogy, if one were able to "leap tall buildings in a single bound," he or she would see, on the way up and down, an abundant supply of available space. And, if being suspended in mid-air for a few moments were possible somehow, one could survey the incredibly low density of the present San Diego landscape and the fact there are plenty of parcels available to be redeveloped into office, retail and other uses. After all, if New York City had stopped its development once all the land was initially developed, it would be a fraction of the size it is today and not nearly the important center of commerce that city has become.

But, the more immediate good news is that there is a healthy supply of existing office space available in San Diego's office sublease market. Unfortunately, that's not what tenants are hearing these days from the landlord doomsayers who are espousing increases in rates and decreases in competitive incentives and concessions that one would expect in a free market economy.

The plain fact is, the difference between the way the San Diego office market is being spun by landlords and the real condition of the San Diego office market would make even the most casual observers conclude that we're talking about two separate cities. They'd be more right than wrong.

Let's explore the hidden "city" of subleased office space. The sublease market, in fact, is cresting in tsunami-like fashion with more options for tenants than most people realize. And, while landlords continue to try to manipulate rents, using scare tactics and a good dose of bad manners to bludgeon prospective tenants, there are a good number of existing large-space tenants who are looking to sublease space to other users -- and who are motivated and competitive. They want their space subleased -- and they want it done now as evidenced by the margins between sublease and direct rental rates that continue to grow with each passing month. Those wanting to sublease space to other tenants are not about to wait the typical 22 months that office space sits on the market.

That said, not all sublease deals are great opportunities. Subleases can be loaded with problems.

For example, what happens if the sublessor -- the tenant leasing part of his space to another tenant -- falls behind in the rent and ends up being evicted? The answer inevitably is that the subtenant is tossed out along with him.

What about the fact that subtenants don't have the same rights as a direct tenant? What rights are we talking about? In some cases, subtenants end up being treated like second-class citizens. Come to think of it, there are myriad direct tenants who are treated that way by arrogant, uncaring landlords and property managers, so subtenants are not the only ones who risk such treatment.

There's no sure thing when it comes to leasing office space, but the possibility to find quality office as a sublessor is still a reasonable option if a tenant exercises care and due cautions. If an office user can occupy space for half the price it would be under a direct lease, it's worth considering on the part of any fiscally prudent tenant. And, if there is more space becoming available to sublet with each passing day, it eventually will put pressure on the conventional landlords to become more competitive and better-mannered -- unless, of course, they are willing to endure the average 22-month vacancy time for their space.

Believe me when I tell you subleasing opportunities abound. For example, the Del Mar Heights area has as much space available for sublease as it does for direct space -- 250,000 square feet in both cases.

Ultimately, there needs to be but one city as far as office space availability is concerned. My hope is that the growing sublease market will eventually pressure landlords to think and behave as if commercial real estate is a free market enterprise and become more competitive. It does no one any good -- including landlords themselves and their broker parrots -- to cry out that the sky is falling as far as tenants are concerned, while trying to push up rents and cut back on incentives.

Meanwhile, prospective office tenants should visit both "cities" when looking at office space opportunities. No telling what they'll find.

Hughes is a principal with Irving Hughes, San Diego's largest tenant representation company. E-mail him at jason.hughes@sddt.com. Comments may be published as Letters to the Editor.